



# **Kent District Library**

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**Financial Statements**  
Year Ended December 31, 2004

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Kent District Library</b>	County <b>Kent</b>
Audit Date <b>12/31/04</b>	Opinion Date <b>3/25/05</b>	Date Accountant Report Submitted to State: <b>8/15/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name)

**BDO Seidman, LLP**

Street Address

**99 Monroe Ave NW, Suite 800**

City

**Grand Rapids**

State

**MI**

ZIP

**49503**

Accountant Signature

*BDO Seidman, LLP*

Date

*8/10/05*

# Kent District Library

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# Kent District Library

## Board of Trustees

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Charles R. Myers  
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Carol Simpson  
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Bradley S. LaTour

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**BDO Seidman, LLP**  
Accountants and Consultants

99 Monroe Avenue NW, Suite 800  
Grand Rapids, Michigan 49503-2654  
Telephone: (616) 774-7000  
Fax: (616) 776-3680

## Independent Auditors' Report

Board of Trustees  
Kent District Library  
Comstock Park, Michigan

We have audited the accompanying basic financial statements of Kent District Library as of and for the year ended December 31, 2004. These basic financial statements are the responsibility of the management of Kent District Library. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of Kent District Library's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Kent District Library as of December 31, 2004, and the changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 12 to the financial statements, Kent District Library adopted the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments* as of January 1, 2004.

Management's Discussion and Analysis and the budgeting comparison information as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*BDO Seidman, LLP*

Grand Rapids, Michigan  
March 25, 2005

# Kent District Library

## Management's Discussion and Analysis

This management's discussion and analysis provides an overview of the Kent District Library's (Library) financial activities for the fiscal year ended December 31, 2004. Please read it in conjunction with the basic financial statements, which follow this discussion.

### Financial Highlights

- The Library achieved a long-term goal of stable funding. The residents of Kent County approved a millage of .8800 for a 10 year period, from 2004-2013. 83% of the Library's revenue is generated from property taxes.
- The Library's assets exceeded liabilities at the close of the fiscal year 2004 by \$7.5 million dollars (reported as *net assets*).
- The Fund Balance of the Library increased by \$294,358 in 2004, bringing the total Fund Balance to \$2,284,628 or 17.5% of current year expenditures, achieving the Kent District Library Board's target for Fund Balance of 15% to 20% of expenditures.

### Overview of the Financial Statements

#### *Statement of Net Assets and Statement of Activities*

The Statement of Net Assets and the Statement of Activities indicate how the Library performed financially during 2004. These government-wide statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private-sector companies. All of the reporting year's revenues and expenses are accounted for regardless of when cash was received or paid.

These two statements report the Library's net assets and the changes in those assets. The change in net assets is important because it indicates whether the financial position of the Library has improved or diminished. Changes can result from many factors, some financial, some not. Financial factors may include a decision to expand library services or utilize new technology. Non-financial factors may include a change in the Library's property tax, a change in state aid or other factors.

#### *Government Fund*

The Library's governmental activities are presented in tandem with the Statement of Net Assets and the Statement of Activities. The purpose of the fund statements is to provide information on the general operations and services of the Library. Governmental fund information helps

# Kent District Library

## Management's Discussion and Analysis

determine whether there are more or fewer financial resources that can be spent in the near future to finance programs.

The reconciliation of the Governmental Fund to the Statement of Net Assets and the Statement of Activities can be found in the Adjustments column between the two statements.

### *Fiduciary Fund*

Fiduciary funds are used to account for resources held for the benefit of parties outside of the government. These funds use the accrual basis of accounting. This fund is not included with the other financial statements because the Library cannot use these assets to finance operations. The Library is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

### **The Kent District Library as a Whole**

Net assets are an indicator of a government's financial position. As of December 31, 2004 the Library's assets exceeded its liabilities by \$7,531,613. The bulk of the Library's net assets (72.1%) reflects its investment in capital assets (e.g. land, building, building improvements, collection, equipment and furniture). These assets are used to provide services to patrons and staff and are not available for future spending. Less than .3% of net assets are restricted for donor specified purposes. The remaining 27.6% is unrestricted and can be used to finance day-to-day operations.

#### **Kent District Library Net Assets 2004**

Current and other assets	\$	14,730,612
Capital assets, net		<u>5,455,271</u>
<b>Total Assets</b>		<b>20,185,883</b>
Current liabilities		12,460,036
Long-term debt outstanding, net of current portion		<u>194,234</u>
<b>Total Liabilities</b>		<b>12,654,270</b>
Net assets:		
Invested in capital assets, net of related debt		5,429,565
Restricted for donor specified purposes		21,300
Unrestricted		<u>2,080,748</u>
<b>Total Net Assets</b>	\$	<b><u>7,531,613</u></b>

# Kent District Library

## Management's Discussion and Analysis

### Changes in Net Assets

Kent District Library governmental activities produced revenues of \$13,338,871 and expenses of \$13,124,690, providing a change in net assets of \$214,181.

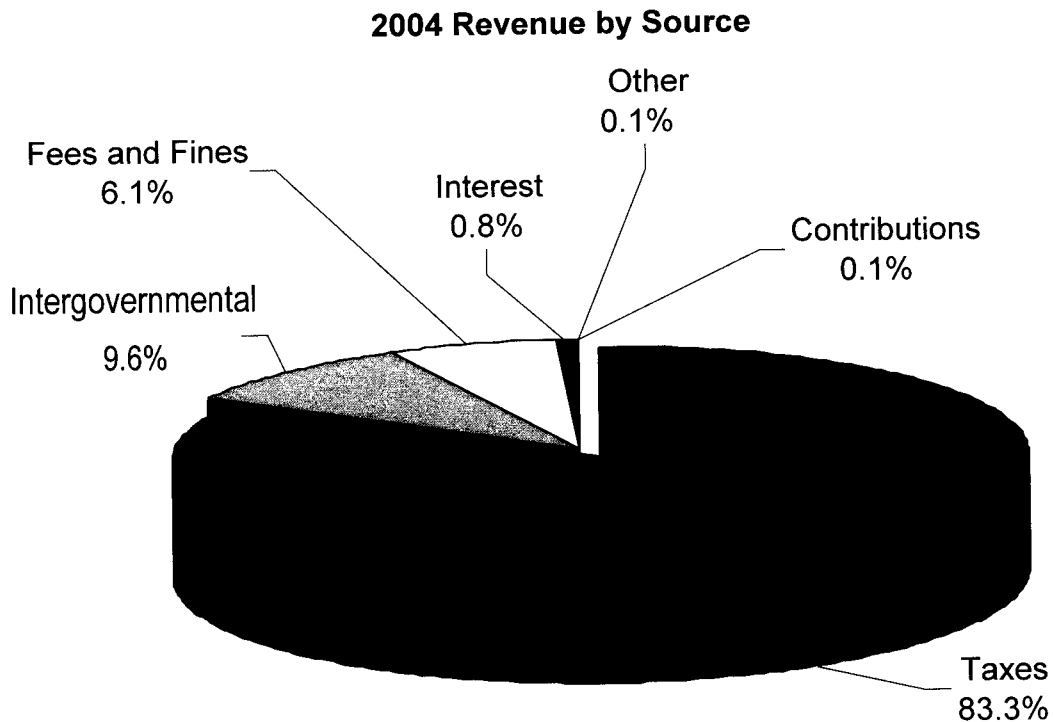
#### Kent District Library Changes in Net Assets

	2004
<b>Revenues</b>	
Taxes	\$ 11,108,866
Intergovernmental	1,283,957
Fees and fines	819,354
Interest	110,257
Contributions	6,642
Other	9,795
<b>Total Revenues</b>	<b><u>13,338,871</u></b>
<b>Expenditures</b>	
Personnel	9,114,249
Supplies	239,874
Contractual	739,073
Other operating	583,983
Programming	100,961
Collections	1,859,895
Technology	276,942
Facility, office equipment and furniture	209,713
<b>Total Expenditures</b>	<b><u>13,124,690</u></b>
<b>Change in Net Assets</b>	<b>214,181</b>
<b>Net Assets, beginning of year</b>	<b><u>7,317,432</u></b>
<b>Net Assets, end of year</b>	<b>\$ <u>7,531,613</u></b>



# Kent District Library

## Management's Discussion and Analysis



The Library generated \$13,338,871 in revenues for the fiscal year ended December 31, 2004. Of that, 83.3% was from property taxes. The property tax recognized as revenue in 2004 was levied on December 1, 2003 and due on February 28, 2004. 2003 was the final year of a millage approved for the period from 2000 to 2003. The authorized millage was .8800 mills, but the actual revenue received from property taxes was lower for several reasons, such as the Headlee amendment, tax relief provided to various development authorities and appeals of property assessments to the tax tribunal.

The Library's tax levy for 2003 was reduced to .8710 mills in accordance with the provisions of the Headlee amendment. The Headlee amendment of 1978 includes a provision that limits the annual increase to a community's total tax base, after adjusting for additions or losses, to either the inflation rate or 5% whichever is less. Headlee legislation provides for a roll back of the tax levy amount in order to reduce that portion of the tax base which exceeds the lower of these two limits. In 2004 the Headlee rollback reduced the Library tax levy by approximately \$115,695.

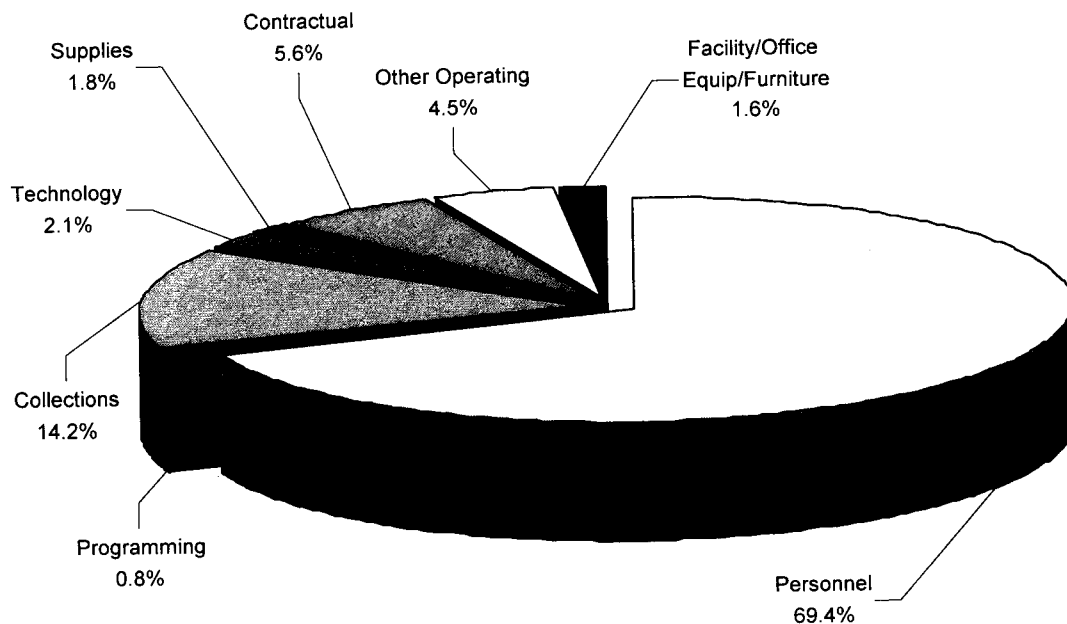
# Kent District Library

## Management's Discussion and Analysis

Property taxes were reduced by an additional \$113,603, due to DDA's (Downtown Development Authority), LDFA's (Local Development Finance Authority) and Brownfield Redevelopment Authority. A further reduction of \$83,176 resulted from tax tribunal reviews, bringing the property tax collection amount to \$11,108,866.

Other significant funding sources are intergovernmental and fines and fees. Intergovernmental generates 9.6% of revenues. It is comprised of state aid, penal fines and state shared revenue. Fines and Fees produced revenues of 6.1%. The major components of this revenue stream are overdue fines, audio and video rentals.

### 2004 Expenses



# Kent District Library

## Management's Discussion and Analysis

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Expenses incurred to provide services to the district were \$13,124,690. The largest expense category was personnel at \$9,114,249 (69.4%). The Library has 268 full and part-time staff. Of that, 79.5% work with the public at the 18 branches located throughout the district and 12.3% of staff directly support the branches from the Service Center, providing processing and cataloging of collection materials, library programs and computer services. Administration, the Business Office, Communications and Human Resources comprise the remaining 8.2%.

Other expenses of note include collections at \$1,859,895 (14.2%) for the books, magazines, videos, DVDs, recordings and electronic databases purchased for public use. Another is contractual at 5.6%. Some important components of contractual are the Integrated Library System (electronic catalog), branch maintenance fees (paid to municipalities based on square footage of library), insurance, and various service contracts (delivery within Lakeland Cooperative, payroll fees, collection fees and computer maintenance agreements). The final portion is other operating at 4.5%. The largest contributors to this expense are training, telecommunications and advertising (services and programs).

### Financial Analysis of the Kent District Library's Funds

The Library's fund balance increased during the year by \$294,358, bringing the total fund balance to \$2,284,628. Of this amount, \$30,515 is reserved for prepaid expenditures and \$21,300 for branch operations, leaving an undesignated balance of \$2,232,813.

### Reporting Kent District Library's Fiduciary Responsibilities

The Kent District Library Employees' Retirement Plan was established by the Board of Trustees and is administered by the Plan Pension Board.

This report includes the activities of the plan in a separate Statement of Fiduciary Net Assets and Changes in Fiduciary Net Assets because the Library cannot use these assets to fund its operations (pages 15 and 16).

The Library is responsible for ensuring these assets are used for their intended purpose.

# Kent District Library

## Management's Discussion and Analysis

### General Fund Budgetary Highlights

The General Fund's original budget was amended. The original budget called for excess of expenditures over revenues of \$127,810. The Library presented two millage requests to the voters in 2004. The first and largest at .8800 mills passed, providing stable funding for ten years. The second millage request of .1200 mills failed. The failure of the second millage resulted in a review of the budget. The final budget balanced revenues and expenditures at \$13,347,862 each.

Actual results provided an excess of revenues over expenditures of \$294,358. Significant variances between the final expenditure budget and actual expenditures are listed below.

Investments - A positive variance of \$9,257. Maximized interest earnings by reducing amount of money held in library's lower interest bearing Operating account.

Advertising/Promotion - A reduction in expenditures of \$23,972. In light of the failure of the second millage to pass, two mass-market mailers were not sent out.

Technology - A reduction in expenditures of \$72,554. The money was to be used for RFID (Radio Frequency Identification) purchases for the 2005 project. Purchases were delayed until 2005.

Collections - A reduction in expenditures of \$60,783. Materials ordered in 2004 were not received by December 31, 2004.

Salaries/Wages - A reduction in expenditures of \$74,693. Several positions remained unfilled for periods of time during the year, notably Network Administrator, Virtual Librarian and Collection Manager.

### Capital Assets

As of December 31, 2004 the Library had \$5,455,271 invested in Capital Assets, including land, building, building improvements, furniture and equipment, and collections. This represents a net increase of \$2,078,407 before depreciation. Total depreciation expense for the year was \$2,120,703. The following schedule indicates the capital asset balances net of depreciation for the year.

# Kent District Library

## Management's Discussion and Analysis

Land	\$ 440,000
Building	1,729,298
Building improvements	48,856
Furniture and equipment	643,988
Collections	<u>2,593,129</u>
Total	\$ <u>5,455,271</u>

### Long-Term Debt

At the end of the year, December 31, 2004, the Library had obligations for capital leases and compensated absences of \$208,286, of which \$14,052 is due within one year. A summary of the Library's outstanding long-term debt for the year ended December 31, 2004 is presented below:

Capital leases	\$ 25,706
Compensated absences	<u>182,580</u>
Total	\$ <u>208,286</u>

### The Kent District Library's Future

In its continuing efforts towards continuous improvement both in patron services and operational efficiency, the Library is planning to introduce Radio Frequency Identification (RFID) technology in 2005. Circulation increased in 2004 by 11.5%. RFID will allow the Library to handle increasing circulation and contain staff costs. Checkout will be faster for patrons through the use of self-checkout machines. Staff will be able to locate patron holds more quickly and check materials more efficiently. The RFID project should be completed by year-end 2006 and is projected to cost approximately \$1,600,000.

### Contact for Additional Information

If you have questions about this report or need additional information, contact the Finance Director at the Kent District Library, 814 West River Center N.E., Comstock Park, Michigan 49321, 616-784-2007.

# Financial Statements

<i>December 31, 2004</i>	Governmental Fund	Adjustments (Note 4)	Statement of Net Assets
<b>Assets</b>			
Cash and investments (Note 5)	\$ 3,464,015	\$ -	\$ 3,464,015
Receivables:			
Property taxes	11,233,682	-	11,233,682
Other	2,400	-	2,400
Prepaid expenditures	30,515	-	30,515
Capital assets (Note 6):			
Non-depreciable	-	440,000	440,000
Depreciable, net of accumulated depreciation	-	5,015,271	5,015,271
<b>Total Assets</b>	<b>\$ 14,730,612</b>	<b>5,455,271</b>	<b>20,185,883</b>

# Kent District Library

## Statement of Net Assets and Governmental Fund Balance Sheet

<i>December 31, 2004</i>	Governmental Fund	Adjustments (Note 4)	Statement of Net Assets
<b>Liabilities</b>			
Accounts payable	\$ 174,347	\$ -	\$ 174,347
Accrued wages	155,305	-	155,305
Deferred revenue	12,037,012	-	12,037,012
Capital leases (Note 8)	-	25,706	25,706
Compensated absences (Note 8)	-	182,580	182,580
Local funds	79,320	-	79,320
<b>Total liabilities</b>	<b>12,445,984</b>	<b>208,286</b>	<b>12,654,270</b>
<b>Commitments and Contingencies</b> (Notes 7, 8, 9, 10, 11 and 13)			
<b>Fund Balances</b>			
Reserved for:			
Prepaid expenditures	30,515	(30,515)	-
Branch operations	21,300	(21,300)	-
Unreserved:			
Undesignated	2,232,813	(2,232,813)	-
<b>Total fund balances</b>	<b>2,284,628</b>	<b>(2,284,628)</b>	<b>-</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 14,730,612</b>		
<b>Net Assets</b>			
Invested in capital assets, net of related debt		5,429,565	5,429,565
Restricted for donor specified purposes		21,300	21,300
Unrestricted		2,080,748	2,080,748
<b>Total Net Assets</b>		<b>\$ 7,531,613</b>	<b>\$ 7,531,613</b>

See accompanying notes to financial statements.



# Kent District Library

## Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance

<i>Year ended December 31, 2004</i>	Governmental Fund	Adjustments (Note 4)	Statement of Activities
<b>Revenues</b>			
Taxes	\$11,108,866	\$ -	\$ 11,108,866
Intergovernmental	1,283,957	-	1,283,957
Fees and fines	819,354	-	819,354
Interest revenue	110,257	-	110,257
Contributions	6,642	-	6,642
Other	9,795	-	9,795
<b>Total Revenues</b>	<b>13,338,871</b>	<b>-</b>	<b>13,338,871</b>
<b>Expenditures/Expenses</b>			
Operations:			
Personnel	9,115,106	(857)	9,114,249
Supplies	239,874	-	239,874
Contractual	739,073	-	739,073
Other operating	583,983	-	583,983
Programming	100,961	-	100,961
Collections	1,932,250	(72,355)	1,859,895
Technology	200,539	76,403	276,942
Facility, office equipment and furniture	112,592	97,121	209,713
Debt service:			
Principal	20,135	(20,135)	-
<b>Total Expenditures/Expenses</b>	<b>13,044,513</b>	<b>80,177</b>	<b>13,124,690</b>
Excess (deficiency) of revenues over expenditures/expenses	294,358	(294,358)	-
Change in net assets	-	214,181	214,181
<b>Fund Balance/Net Assets, beginning of year,     as restated (Note 12)</b>	<b>1,990,270</b>	<b>-</b>	<b>7,317,432</b>
<b>Fund Balance/Net Assets, end of year</b>	<b>\$ 2,284,628</b>	<b>\$ -</b>	<b>\$ 7,531,613</b>

*See accompanying notes to financial statements.*

# Kent District Library

## Statement of Fiduciary Net Assets

<i>December 31,</i>	2004
<b>Assets</b>	
Receivables	
Employer contribution	\$ 12,170
Employee contribution	5,369
Interest and dividends	69,675
Total receivables	87,214
Investments, at fair value (Note 5)	
Short-term investments	486,670
United States Treasury bills, notes and bonds	1,942,726
Corporate bonds, debentures and notes	1,950,435
Foreign obligations	62,027
Common stock	4,510,000
ANB Multiple S&P 500 Index Fund	3,448,974
Foreign equity mutual funds	1,824,456
Domestic mutual funds	7,103,467
Government agency obligations	166,523
Total investments	21,495,278
<b>Total Assets</b>	<b>21,582,492</b>
<b>Net Assets Held in Trust for Pension Benefits</b>	<b>\$21,582,492</b>

*See accompanying notes to financial statements.*

# Kent District Library

## Statement of Changes in Fiduciary Net Assets

<i>Year ended December 31,</i>	2004
<b>Additions</b>	
Contributions:	
Employer	\$ 599,224
Employee	310,422
<b>Total contributions</b>	<b>909,646</b>
Investment income:	
Net appreciation in fair value of investments	1,385,760
Interest	227,155
Dividends	437,333
	2,050,248
Less investment expense	43,347
<b>Net investment income</b>	<b>2,006,901</b>
<b>Total Additions</b>	<b>2,916,547</b>
<b>Deductions</b>	
Benefits	146,795
Refunds of contributions	61,859
Administrative expense	17,516
<b>Total Deductions</b>	<b>226,170</b>
<b>Change in Net Assets</b>	<b>2,690,377</b>
<b>Net Assets Held in Trust for Pension Benefits</b> (a schedule of funding progress is presented in Note 10), beginning of year	18,892,115
<b>Net Assets Held in Trust for Pension Benefits, end of year</b>	<b>\$21,582,492</b>

*See accompanying notes to financial statements.*

# Kent District Library

## Notes to Financial Statements

### 1. Description of the Kent District Library

Effective July 1, 1994, the Kent District Library (Library) was established pursuant to Act No. 24 of the Public Acts of 1989. Its purpose is to provide library services to the residents of the district. The Library may also enter into contracts to provide library services to municipalities outside the district.

The Library is governed by a Board consisting of eight members who are appointed by the Kent County Board of Commissioners according to geographic regions. The Board has the authority to levy taxes and determine its budget, the power to designate management and accountability for the Library's fiscal matters. The financial statements of the Library contain all funds for which the Library is financially accountable. The Library's primary source of revenue is property taxes. The voters within the Library's service area have approved a levy of .88 mills for operating purposes. This millage is approved through 2013.

### 2. Summary of Significant Accounting Policies

#### *Basis of Presentation*

The statement of net assets/balance sheet and the statement of activities/revenues, expenditures and changes in fund balance report information on the activities of the Library. The adjustments columns are used to reflect the conversion from the balance sheet to the statement of net assets and the conversion of revenues, expenditures and changes in fund balance to the statement of activities.

When both restricted and unrestricted resources are available, it is the Library's policy to use restricted resources first.

#### *Measurement Focus and Basis of Accounting*

The Library uses the current financial resources measurement focus and modified accrual basis of accounting. Revenues are recognized when they become measurable and available to finance expenditures of the current period. The Library considers revenues available if earned and collected within 60 days after the end of the current fiscal period. Property tax revenues are recognized as revenues in the fiscal year for which they were levied. Expenditures are generally recognized when the related fund liability is incurred. However, debt service expenditures are recorded only when payment is due.

# Kent District Library

## Notes to Financial Statements

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However, for presentation of the year-end audited financial data, the government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. These statements are similar to statements used in the private sector by for-profit business enterprises and not-for-profit organizations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

The government-wide financial statements follow applicable accounting and financial reporting standards of the Financial Accounting Standards Board issued through November 30, 1989, unless those pronouncements conflict with Governmental Accounting Standards Board pronouncements.

### ***Budgets and Budgetary Accounting***

Budgets presented in the financial statements were prepared on the same basis as the accounting basis used to reflect actual results. The General Fund is subject to legal budgetary accounting controls and is budgeted annually. The Library follows these procedures in establishing the budgetary data reflected in the financial statements:

- Prior to July 1, branch managers and department heads submit an expenditure budget report for the fiscal year commencing the following January 1.
- During July and August, the Director and Finance Director develop an operating budget based upon the proposed expenditures and projected revenues for submission to the Board in August.
- Board budget work sessions are held in August.
- Public hearings are conducted by the Board during the September Board meeting and the final budget is adopted in September.
- Formal budgetary integration is employed as a management control device during the year for the General Fund.

# Kent District Library

## Notes to Financial Statements

- Budgeted amounts are as originally adopted or as amended by the Board of Trustees during the calendar year. Amendments were not material to the originally adopted budget.

### *Cash, Investments and Accrued Interest*

Cash deposits of the Library consist of checking accounts and a municipal investment fund maintained at a local bank. Other funds, except those of the retirement fund, are deposited in the Kent County Pooled Cash and Investment System (Money Max). Interest income earned in Money Max is included in the pooled funds. Only the Library's portion of this pool as reported by the County is reported on the balance sheet. Investments are reported at fair value.

### *Capital Assets*

Tangible assets having a useful life in excess of one year, with cost in excess of \$2,000, are capitalized. Capital assets are stated at acquisition cost or fair value at the date of acquisition. Donated assets are stated at their estimated market value as of the donation date. When assets are sold or retired, the cost and related accumulated depreciation are removed from the accounts. Depreciation is computed using the straight-line method over the estimated useful lives of the related assets as follows:

	Years
Building	25
Building improvements	15
Furniture and equipment	3-10
Collections	2-5
Vehicles	5

### *Property Taxes*

Property taxes are levied on December 1 at all local units at which time the taxes attach as an enforceable lien on the property. The taxes are due February 28 of each year. The Library's portion of the 2004 taxes are collected by the local units and remitted to the Library as it is received. The Library records its portion of the property taxes as deferred revenue in the General Fund when levied and recognizes the taxes as revenue in the ensuing year.

# Kent District Library

## Notes to Financial Statements

The Library's portion of the 2004 property tax levy, which was based on the rate of .88 mills, applied to a total taxable value of real and personal property located in the Library district of approximately \$13.505 billion, is subject to change due to review and tax tribunal decisions.

### *Risk Management and Benefits*

The Library is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. In order to minimize its exposure to these risks, the Library purchases commercial insurance coverage. Employee health insurance is also provided by private insurance carriers. There have been no settlements in excess of the Library's insurance coverage.

### *Compensated Absences*

Library employees are granted vacation leave in varying amounts based on length of service. Employees may not accumulate over 200 hours of vacation leave in any one calendar year. The Library also allows employees to accumulate unused holiday leave up to a maximum of 40 hours per employee. Upon termination, employees are paid for unused vacation and holiday leave at their current rates of pay.

Full-time employees accumulate sick leave at a rate of 12 days (or 96 hours) per year. Part-time employees accumulate sick leave on a pro rata basis based on a full-time schedule. Unused sick leave accumulates from year to year to a maximum of 1,440 hours. No portion of unused sick leave is paid to employees upon termination. It is the Library's policy to recognize the cost of vacation and holiday pay and sick leave at the time the liability is incurred. In the governmental fund financial statements, only the matured liability for compensated absences is reported. The total liability is reported in the government-wide financial statements.

### *Deferred Revenue*

Deferred revenue represents property taxes levied but not due until the following year. The taxes attach as an enforceable lien at the time of levy. Property taxes deferred will be recognized as revenue during 2005.

# Kent District Library

## Notes to Financial Statements

### *Use of Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results may differ from those estimates.

### **3. Stewardship, Compliance and Accountability**

There were no expenditures in excess of appropriations for the year ended December 31, 2004.

### **4. Reconciliation of Government-Wide and Fund Financial Statements**

Amounts reported in the Statement of Net Assets and the Statement of Activities are different from amounts reported in the governmental fund columns due to the following:

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Governmental Fund - total fund balance	\$ 2,284,628
Capital assets are not financial resources and, therefore, are not reported in the governmental fund balance sheet:	
Non-depreciable capital assets	440,000
Depreciable capital assets	12,950,612
Accumulated depreciation	(7,935,341)
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental fund balance sheet:	
Contracts payable	(25,706)
Compensated absences payable	(182,580)
<b>Net Assets in the Statement of Net Assets</b>	<b>\$ 7,531,613</b>

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# Kent District Library

## Notes to Financial Statements

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Governmental Fund - net change in fund balance	\$ 294,358
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The governmental fund reports capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense:

Amount by which depreciation (\$2,120,703) exceeded capital outlays in the current period	(42,296)
Amount related to loss on disposition of capital assets in the current period	(58,873)

Debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets.

Repayment of contract principal is an expenditure in the governmental fund but the repayment reduces long-term liabilities in the statement of net assets:

Repayments of principal of contracts	20,135
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds. Change in balance is as follows:

Compensated absences	857
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<b>Change in Net Assets on the Statement of Activities</b>	<b>\$ 214,181</b>
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### 5. Cash and Investments

#### *Cash*

At December 31, 2004, the carrying amount of the Library's deposits was \$459,781 and the bank balance totaled \$511,096 of which \$100,000 was insured by the FDIC and \$411,096 was uninsured.

State statutes require that certificates of deposit, savings accounts, deposit accounts and depository receipts are made with banks doing and having business in the state of Michigan which are also members of a federal or national insurance corporation.

In addition to the deposits above, the Library also maintains cash on hand of \$2,780.

# Kent District Library

## Notes to Financial Statements

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### *Investments*

State statutes authorize the Library to invest in obligations of the United States Treasury, agencies and instrumentalities, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services, bankers' acceptances of U.S. banks, United States government or federal agency obligation repurchase agreements and mutual funds composed of the types of investment vehicles previously named. The Employees' Retirement Plan is also authorized to invest in corporate stocks and bonds and certain other investments as allowed by state law.

The Library participates in an investment pool sponsored by the County. Since the Library's investment in the fund is pooled with other participating entities, the investment is not subject to categorization in accordance with GASB Statement No. 3. The investment pool is not registered with the SEC and there is no other regulatory oversight. The fair value of the Library's position in the pool is the same as the value of pool shares. The Library's investments are categorized below to give an indication of the level of risk assumed by the entity at year-end.

- Category 1 includes investments that are insured or registered or for which the securities are held by the Library or its agent in the Library's name.
- Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the Library's name.
- Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent, but not in the Library's name.

# Kent District Library

## Notes to Financial Statements

	Category			Total
	1	2	3	
Categorized investments				
Common stock	\$ -	\$ -	\$4,510,000	\$ 4,510,000
Foreign obligations	-	62,027	-	62,027
Government obligations	-	1,942,726	-	1,942,726
Government agency obligations	-	166,523	-	166,523
Corporate obligations	-	1,950,435	-	1,950,435
<b>Total Categorized Investments</b>	<b>\$ -</b>	<b>\$4,121,711</b>	<b>\$4,510,000</b>	<b>8,631,711</b>
Uncategorized investments				
Domestic mutual funds				7,114,520
Foreign equity mutual funds				1,824,456
Kent County pooled investments				2,990,401
Money market funds				486,670
Equity index funds				3,448,974
<b>Total Uncategorized Investments</b>				<b>15,865,021</b>
<b>Total Investments</b>				<b>\$ 24,496,732</b>

# Kent District Library

## Notes to Financial Statements

### 6. Capital Assets

The following table summarizes, by major class of asset, the capital asset activity for the year ended December 31, 2004:

	Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004
Capital assets, not being depreciated				
Land	\$ 440,000	\$ -	\$ -	\$ 440,000
Capital assets, being depreciated				
Building	2,108,900	-	-	2,108,900
Building improvements	-	50,541	-	50,541
Furniture and equipment	2,201,751	295,247	62,206	2,434,792
Collections	8,462,513	1,732,619	1,856,753	8,338,379
Vehicles	18,000	-	-	18,000
Total capital assets being depreciated	12,791,164	2,078,407	1,918,959	12,950,612
Less accumulated depreciation for				
Building	295,246	84,356	-	379,602
Building improvements	-	1,685	-	1,685
Furniture and equipment	1,418,578	434,432	62,206	1,790,804
Collections	5,942,900	1,600,230	1,797,880	5,745,250
Vehicles	18,000	-	-	18,000
Total accumulated depreciation	7,674,724	2,120,703	1,860,086	7,935,341
Total capital assets being depreciated, net	5,116,440	(42,296)	58,873	5,015,271
<b>Capital Assets, net</b>	<b>\$ 5,556,440</b>	<b>\$ (42,296)</b>	<b>\$ 58,873</b>	<b>\$ 5,455,271</b>

# Kent District Library

## Notes to Financial Statements

### 7. Line of Credit

The Library has a line of credit agreement which permits borrowings up to \$10,000 and bears no interest. At December 31, 2004, \$1,174 was outstanding under the line of credit agreement and is included in accounts payable on the statement of net assets and governmental fund balance sheet.

### 8. Long-Term Debt

The following is a summary of changes in long-term debt:

	Balance January 1, 2004	Additions	Deletions	Balance December 31, 2004	Due Within One Year
Capital leases	\$ 45,841	\$ -	\$ 20,135	\$ 25,706	\$ 14,052
Compensated absences	183,437	-	857	182,580	-
	\$ 229,278	\$ -	\$ 20,992	\$ 208,286	\$ 14,052

#### *Capital Leases*

The Library is obligated under certain leases for office equipment accounted for as capital leases. The leased assets and related obligations are accounted for in the government-wide financial statements. Assets under capital leases totaled \$54,980 at December 31, 2004.

The following is a schedule of future minimum lease payments under capital leases, together with the net present value of the minimum lease payments as of December 31, 2004:

# Kent District Library

## Notes to Financial Statements

*Year ending December 31,*

2005	\$15,172
2006	9,198
2007	2,915

Minimum lease payments for all capital leases	27,285
Less amount representing interest	1,579

<b>Present Value of Minimum Lease Payments</b>	<b>\$25,706</b>
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### 9. Contingencies

The Library has received several grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursement to the grantor agencies for expenditures disallowed under the terms of the grants. The Library believes such disallowances, if any, will be immaterial.

### 10. Retirement Plan

#### *Plan Description*

The Kent District Library Employees' Retirement Plan (Plan) is a single-employer defined benefit pension plan covering substantially all employees of the Library. The Plan was established and may be amended by the Board of Trustees and is administered by the Plan Pension Board. The Plan provides retirement, disability and death benefits to Plan members and their beneficiaries.

The Plan issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The financial report may be obtained by contacting the Library.

# Kent District Library

## Notes to Financial Statements

### *Significant Accounting Policies*

#### *Basis of Accounting*

The financial statements of the Plan are prepared using the accrual basis of accounting. Contributions to the Plan are recognized when due and benefits and refunds are recognized when due and payable, in accordance with the terms of the Plan.

#### *Method Used to Value Investments*

Plan investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair values. The Plan has no investments in debt or equity securities of any commercial or industrial organization whose market value exceeds 5% of the net assets available for benefits.

#### *Funding Policy*

The contribution requirements of Plan members are established and may be amended through union agreements. Active plan members are required to contribute 4.5% of their salary to the Plan after meeting eligibility requirements. The Library is required to contribute at actuarially determined rates expressed as a percentage of covered payroll. The Library's contribution rate was 8.66% and 6.83% of annual covered payroll in 2004 and 2003, respectively.

#### *Annual Pension Cost and Net Pension Obligation*

The Library's annual pension cost and annual required contribution was \$614,580 and \$439,957 in 2004 and 2003, respectively. The Plan had no net pension benefit obligation at December 31, 2004 and 2003.

The annual required contribution for the year ended December 31, 2004 was determined as part of the January 1, 2003 actuarial valuation using the entry-age normal cost method. The actuarial assumptions included: (a) a rate of return on investments of 7% per year compounded annually; (b) projected salary increases ranging from 5.5% to 9.5% per year, compounded annually, attributable to inflation, seniority/merit and other causes; and (c) the assumption that benefits will increase 1% per year beginning three years after retirement.

# Kent District Library

## Notes to Financial Statements

### Three-Year Trend Information

<i>Year ended December 31,</i>	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
2002	\$ 381,767	100%	\$ -
2003	439,957	100%	-
2004	614,580	100%	-

### Required Supplementary Information

#### *Schedule of Funding Progress* (dollar amounts in thousands)

<i>Actuarial valuation date</i>	Actuarial value of assets (a)	Actuarial accrued liability (AAL) entry age (b)	Unfunded AAL (b)-(a)	Funded ratio (a)/(b)	Active member covered payroll (c)	Funding excess as a percentage of active member covered payroll ((b-a)/c)
January 1, 2003	\$18,057	\$ 15,112	\$ (2,945)	119.5%	\$5,719	(51.5)%
January 1, 2004	19,164	17,209	(1,955)	111.4%	6,313	(31.0)%
January 1, 2005	20,890	19,042	(1,848)	109.7%	6,807	(27.1)%

The information presented in the required supplementary schedule was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	January 1, 2005
Actuarial cost method	Entry-age normal
Amortization method	Level percent over 10 years
Asset valuation method	Four-year smoothed market
Actuarial assumptions:	
Investment rate of return	7%
Projected salary increases attributable to inflation, seniority/merit and other causes	5.5% to 12.1%
Cost of living adjustments	1% per year beginning three years after retirement



# Kent District Library

## Notes to Financial Statements

### 11. Other Postemployment Benefits

In addition to the pension benefits described in Note 10, the Library provides postretirement health care benefits, in accordance with the KDL/UAW labor contract, to all employees who retire from the Library under the Library's retirement plan and elect to receive benefits. For retirees prior to July 1, 2001, the Library pays a monthly amount of \$3 per year of continuous service, not to exceed 30 years, less \$15 towards medical and hospitalization premiums until age 65. For employees who retire after July 1, 2001, the Library pays a monthly amount of \$6 per year of service, not to exceed 30 years. Library contributions are conditioned upon the retiree participating in the same health care program that is provided to members of the Library's bargaining unit. At December 31, 2004, three retirees were eligible to receive postretirement health care benefits. Total expenditures of \$1,320 were recognized for two retirees who elected to receive postretirement health care benefits in 2004.

### 12. New Pronouncements

In 2004, the Library adopted the provisions of Governmental Accounting Standards Board Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, Statement No. 37, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus* and Statement No. 38, *Certain Financial Statement Note Disclosures*.

The conversion of governmental activities fund balance to net assets at January 1, 2004 is as follows:

<i>January 1,</i>	<i>2004</i>
Beginning fund balance	\$ 1,990,270
Net capital assets	5,556,440
Capital lease payable	(45,841)
Compensated absences payable	(183,437)
<b>Net Assets as of January 1, 2004</b>	<b>\$ 7,317,432</b>

# Kent District Library

## Notes to Financial Statements

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### 13. Subsequent Event

Subsequent to year end the Library entered into a 5-year lease agreement to lease self-check automation system equipment with a value of approximately \$700,000.

## **Required Supplementary Information**

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# Kent District Library

## General Fund Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

<i>Year ended December 31, 2004</i>	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
<b>Revenues</b>				
Taxes	\$ 11,173,905	\$ 11,120,742	\$ 11,108,866	\$ (11,876)
Intergovernmental	1,349,281	1,283,137	1,283,957	820
Fees and fines	750,198	836,246	819,354	(16,892)
Interest revenue	101,000	101,000	110,257	9,257
Contributions	2,000	6,542	6,642	100
Other	1,100	195	9,795	9,600
<b>Total Revenues</b>	<b>13,377,484</b>	<b>13,347,862</b>	<b>13,338,871</b>	<b>(8,991)</b>
<b>Expenditures</b>				
Operations:				
Personnel	9,311,102	9,226,764	9,115,106	111,658
Supplies	260,103	255,348	239,874	15,474
Contractual	784,021	760,627	759,208	1,419
Other operating	698,766	610,167	583,983	26,184
Programming	114,525	112,525	100,961	11,564
Collections	2,006,623	1,993,033	1,932,250	60,783
Technology	264,390	273,093	200,539	72,554
Facility, office equipment and furniture	65,764	116,305	112,592	3,713
<b>Total Expenditures</b>	<b>13,505,294</b>	<b>13,347,862</b>	<b>13,044,513</b>	<b>303,349</b>
Excess (deficiency) of revenues over expenditures	(127,810)	-	294,358	294,358
<b>Fund Balance, beginning of year</b>	<b>1,990,270</b>	<b>1,990,270</b>	<b>1,990,270</b>	<b>-</b>
<b>Fund Balance, end of year</b>	<b>\$ 1,862,460</b>	<b>\$ 1,990,270</b>	<b>\$ 2,284,628</b>	<b>\$ 294,358</b>



**BDO Seidman, LLP**  
Accountants and Consultants

99 Monroe Avenue NW, Suite 800  
Grand Rapids, Michigan 49503-2654  
Telephone: (616) 774-7000  
Fax: (616) 776-3680

March 25, 2005

Members of the Board of Trustees  
Kent District Library  
Comstock Park, Michigan

Dear Members:        :

We have audited the financial statements of the Kent District Library as of and for the year ended December 31, 2004, and have issued our report thereon dated March 25, 2005. In planning and performing our audit, we considered the Library's internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on internal controls. We have not considered internal controls since the date of our report.

During our audit, we noted certain matters involving operations and procedures that are presented for your consideration. These comments and recommendations, all of which have been discussed with the appropriate members of management, are intended to improve internal controls or result in other operating efficiencies or improvement in financial reporting.

## **Cash**

Pending pick-up of the cash bag by the delivery driver, certain branches properly maintain their cash bag in a locked location; however, numerous employees within the branch have access to that location. Unrestricted access to the cash bag increases the potential for risk of loss due to theft.

### ***Recommendation***

Implement procedures whereby only individuals who are responsible for cash transactions and the delivery driver have access to the location where the cash bag is stored.

### ***Kent District Library Response***

We agree with the above assessment. We were concerned enough to have added it to the *2005 Business Plan*, Objective #5, Review Branch cash handling procedures from a safety viewpoint. The objective states that on-site cash handling will be the targeted area of evaluation. We have

scheduled the review of all branches in late summer and early fall. The information from that review will result in changes in how and where the cash bag is left for the delivery driver. Our first goal is to ensure the safety of our staff. Secondary, but as important, is to secure cash from theft.

### **Customer Receipts**

The Library has written branch cash procedures which state that receipts should be given to each person paying money. During our branch interview procedures, it was noted that both branches issue receipts in certain situations; however, the policy has not been fully implemented to include all monetary transactions.

#### ***Recommendation***

Ensure branch compliance with the "Branch Cash Procedures" policy.

#### ***Kent District Library Response***

Our written branch cash procedures state receipts should be given out for all transactions. We will review this with the Circulation Managers to discover if there was a reason for limiting receipts to certain transactions. Upon receipt of this information we will take appropriate action.

This memorandum is intended solely for the information and the use of the Board of Trustees, management and others within the Library and should not be used for any other purpose.

Very truly yours,

*BDO Seidman, LLP*